MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BSI3124 – SEMINAR IN INVESTMENT
(All sections / Groups)

19 OCTOBER 2019
(2.30 P.M.- 4.30 P.M.)
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **6** pages. There are total **4** questions.
2. Answer **ALL** questions.
3. Marks are shown at the end of each question.

Answer all questions in the answer booklet provided.

QUESTION 1 (25 marks)

(a) Read the extracted journal and answer the following questions (i) and (ii).

Corporate social responsibility in family firms: A contingency approach

1. Introduction

As some scholars like Cruz et al. (2014), Le Breton-Miller and Miller (2016), Berrone et al. (2010) and Campopiano and De Massis (2014) have extensively studied, corporate social responsibility (CSR) is increasing its importance at the forefront of firms' agendas—specifically at family firms (FFs). In all countries, FFs represents the majority of all businesses (IFERA, 2003). Thus, during the last few decades, family business literature has received consistent attention by examining their ethical compromise, not only being developed as itself but also compared with those companies that differ in composition: non-controlled FFs (Boling et al., 2016; Cruz et al., 2014; Marques et al., 2014; Sánchez-Medina and Díaz-Pichardo, 2017). However, despite the analysis of prior literature, there is still a lack of information on whether they are more socially responsible or not, due to controversial results.

Some authors focus on the role of FFs in the engagement of social activities to pursue their socioemotional wealth (SEW) and maximise shareholders' value (Cennamo et al., 2012). Despite general opinion, however, others have stated that FFs could not be focused on arranging CSR (Burak and Morante, 2007; Morck and Yeung, 2004): some of them due to the opportunism that emerges in public FFs when they reach certain positions (Le Breton-Miller and Miller, 2016). Berrone et al. (2012) proposed that those differences on results are based mainly in the distinction FFs may make along their life; that is, giving more importance to protecting their image and reputation or letting their control-power and influence in the company surpass their SEW. Similarly, the differences among the governance and environmental factors of FFs can influence the engagement of FFs towards CSR activities. For instance, some authors (e.g., Le Breton-Miller and Miller, 2016) propose what they call 'moderating contingencies', which make FFs behave towards a more sustainable approach.

Thus, attending to those authors, the contingencies analysed will be associated with: (i) the presence of family directors and members on the board; and (ii) the influence of the environment in which the firm operates—in relation to the level of munificence and the long-term orientation of the country. Respectively, prior literature has mentioned that the efforts to ensure CSR are higher when the family is completely involved in the company business (Chrisman et al., 2005); whereas, Tan and Litschert (1994) found evidence regarding the change of behaviour that companies experience when they stay in munificent markets, and Hofstede and Hofstede (2005) introduced the idea of long-term orientation as the connection between the past and the future of the company.

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Attending to the lack of unanimity on the issues of FFs' compromise towards CSR and the need of exploring those contingencies that moderate such compromise, our paper focuses on the following. First, this research analyses the effect that FFs may have on their behaviour towards CSR approaches and, thus, their focus on social and environmental friendly activities. Second, we focus our analysis on the moderation that the FFs-CSR relationship may experience on the presence of different contingency factors regarding governance and environmental stages. According to Berrone et al. (2012)family businesses act differently, not only depending on the contingency factors but also on the type of stakeholders; therefore, we then examine the differentiation between internal and external stakeholders.

In summary, this paper addresses the following questions: (1) How do FFs behave towards CSR actions?; (2) Are there any differences in the CSR commitment of FFs towards internal and external stakeholders?; and (3) How can contingency factors—governance and environment aspects-- moderate the relationship between FFs and CSR? These research questions are examined for an internal sample of analysis, from 2006 to 2014. Methodologically, several Tobit regressions for panel data are proposed. Our main evidence supports the notion that FFs conduct their activities on the path of social and environmental behaviours, showing a greater CSR commitment with external and internal stakeholders. Moreover, the greater CSR commitment of FFs is even superior: (i) under the large presence of family members on the management team and family directors on board of directors (i.e., as governance factors) and (ii) in munificent contexts (i.e., as an environment factor).

The remainder of this paper is structured as follows. In Section 2, we describe the theoretical background that supports our research hypotheses. Section 3describes the research model, data and sample. Finally, Sections 4 Empirical results, 5 Discussion of results present the results obtained and the conclusions drawn, respectively.

Source: Eva López-González, Jennifer Martínez-Ferrero, EmmaGarcía-Meca (2019) Corporate social responsibility in family firms: A contingency approach. Journal of Cleaner Production 211 (2019) 1044-1064.

(i) Identify the research problem & the research question that the researchers intend to carry out in the study. (6 marks)

(ii)From your opinion, is it important for firms to practice corporate social responsibility in their business? (7 marks)

(b) Explain the following investment strategies.

(i) Value investing (4 marks)

(ii) Contrarian investing (4 marks)

(iii) Dividend investing (4 marks)

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QUESTION 2 (25 marks)

(a) What are the assumptions made under efficient market hypothesis (EMH)?. Provide 2 assumptions. (8 marks)

(b) The following excerpt is taken from an article from Science Direct database. Answer the following questions.

From efficient markets to adaptive markets: Evidence from the French stock exchange

1. Introduction The modern efficient market hypothesis (EMH) was given by Fama (1970). Accordingly, a market is said to be efficient if prices at any time fully reflect all available and relevant information. Hence, each new information is instantaneously integrated in prices. This means that stock returns are independent and cannot be predicted. Fama divided the EMH into three categories according to prices to reflect particular subsets of available information. This distinction is threefold: the weak form where the information subset is historical prices; the semi strong form based on publicly available information; and the strong form on private information. The weak form efficiency has been the most widely studied and as well the most controversial. The definition indicates that, if a market is weakly efficient, stock returns should follow a random walk, which causes that prices are serially uncorrelated. As a result, historical prices cannot be used to forecast stock market trend. No investors are able to make abnormal profits over time by using trading rules based on past returns. The empirical literature on EMH studied the weak form1 through a variety of random walk tests (variance ratio, Hurst statistic, run test, ...). However, it seems that there is still no consensus on whether financial markets are efficient or not. Indeed, in the one hand, several studies have shown that stock returns follow random walk for different developed and developing markets (Fama, 1970; Chow and Denning, 1993; Poon, 1996; Cheung and Coutts, 2001; Tabak, 2003). On the other hand, literature has highlighted that financial markets are not efficient and possess some components of predictability (Mills, 1993; Huang, 1995; Hoque et al., 2007). With regard to the French stock exchange, results are equally diverse. For instance, Stachowiak (2004) and Worthington and Higgs (2003) have observed the random walk behavior in the equity market using respectively simple and multiple variance ratio tests. More recently, Kim and Shamsuddin (2008) and Borges (2010) have indicated the presence of inefficiency with a variance ratio test based on bootstrap. Mignon (1998) and Matouk and Monino (2005) have used the Hurst's statistic and confirmed the presence of long memory validating the hypothesis of return predictability. The literature on the field has examined the hypothesis of random walk over some predetermined sample period. Consequently, the efficiency is analyzed as an all or nothing condition, since results can be different depending on the sample period, relaunching the endless discussion between proponents and opponents of the EMH.

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Lo (2004) has proposed an alternative market theory to the HEM with the Adaptive Market Hypothesis (AMH) that "can be viewed as a new version of the EMH, derived from evolutionary principles". This framework tries to reconcile EMH with behavioural alternatives, by using the notions of bounded rationality and satisficing derived from Simon (1955).

Source: Boya (2019) From efficient markets to adaptive markets: Evidence from the French stock exchange, Research in International Business and Finance, 49, 156–165.

(i) Explain how efficient market hypothesis affect your investing decision. (8 marks)

(ii) Explain how adaptive market hypothesis affect your investing decision. (9 marks)

QUESTION 3 (25 marks)

(a) Given the two models below, explain the variables of (RMt – RFt), SMB, HML, RMW and CMA.

Fama and French (1993) three-factor model
Rit – RFt = ai + bi (RMt – RFt) + si SMBt + hi HMLt + eit

Fama and French five-factor model
Rit – RFt = ai + bi (RMt – RFt) + si SMBt + hi HMLt + ri RMWt + ci CMAt + eit

(15 marks)

(b) Explain behavioral asset pricing model and discuss three behavioral variables which have been tested in the literature. (10 marks)

QUESTION 4 (25 marks)

(a) Read the extracted journal and answer the following questions (i), (ii) and (iii)

Embrace the eWallet

DIGITAL wallets are being adopted at such a quick rate these days, it almost seems like the future has already arrived. No need for cash or even cards, as your smartphone easily does almost everything; who'd have thought a decade ago that almost everything you need could fit into your palm? Think about it: from communication, entertainment, navigation, translation, documentation and now tap and go consumerism, your smartphone probably has an app for that and more.

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In the next thirty years or so, Malaysia is expected to become a fully digital nation and embrace being a cashless society. You might want to preserve some of those coins and notes for posterity's sake - who knows how quickly they may disappear from use!

Whether you call it a Mobile Wallet, Digital Wallet or eWallet, what these apps do is allow a consumer to perform a string of payments from settling electricity bills, booking movie tickets or buying a slew of things both online and offline. By linking a credit, debit card or bank accounts with the eWallet app, one can easily make a payment, top up or reload accounts from one's mobile phone. It's fast, convenient, safe and easy. It takes just a few minutes, for example, to download Touch 'N Go's eWallet app, link your credit card and activate it!

Bigger brands have begun preparing for these cashless transactions, and many are already on board, making full use of the opportunity to capitalise on rewards programmes and being able to offer other valuable perks directly to consumers. For the Touch 'n Go eWallet, the year-long partnership that was recently announced with Tealive is one such example, and offers great discounts and promotions to customers who pay with the Touch 'n Go eWallet for selected Tealive beverages (Ramadan promo). You'll have noticed payment options at checkout counters at larger stores such as KFC, TGV and Tesco as well.

However, the smaller businesses that rely heavily on cash transactions may end up having to face big challenges adopting this new cashless ecosystem. These would be stores such as mom-and-pop shops, night markets, street vendors, hawker stalls and food trucks, all who need quick access to daily cash, especially if they have to pay their suppliers who only want cash.

But even from a smaller retailer's point of view, the benefits of cashless payments are obvious, as it will offer a more secure system with lower transaction costs - no commissions, no need for card verification, increased comfort for the customer (making queues shorter and less nerve wracking), decrease in staff needed at checkout points, and of course safety. This also means no in-store theft among employees or cashiers and a lower risk in losing cash while handling it.

For consumer M. Shankar, the eWallet offers a layer of added security. He said: "I like the eWallet because the app makes it easy to track my spending."

Small business trader Yusri Yusoh said that he has only just started accepting the eWallet as a payment option at his stall at the Ramadan bazaar in Kampung Baru, Kuala Lumpur. "I see it's many uses, it simplifies the transactions between the consumer and me. We can finish the transaction faster, and so we can serve more customers at the end of the day."

Source: The Star Online, 20 May 2019

(i) Cashless payment e.g. e wallet is aggressively expanded in the market and Malaysia seems to be well moving towards becoming a cashless society. What is cashless payment? What is an e-wallet? (8 marks)

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(ii) Discuss two potential benefits to bring along by adopting cashless payment. (6 marks)

(iii) Discuss two potential risk of moving into a cashless society. (6 marks)

(b) Explain equity crowdfunding. (5 marks)

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